

1D. Fiscal: Savvy Auditor Selection and Recent Audit Developments

CAPLAW 2011 National Training Conference

Wednesday, June 15, 2011

3:15 p.m. – 5 p.m.

Minneapolis, MN

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SAVVY AUDITOR SELECTION

CAPLAW National Training Conference
Minneapolis, Minnesota
June 15, 2011

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Presented by:
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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Wheeling, West Virginia
Steubenville, Ohio
Ashtabula, Ohio
Andover, Ohio
Pittsburgh, Pennsylvania
Philadelphia, Pennsylvania

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Overview of the RFP Process

- Screening
- Solicitation
- Evaluation

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Planning

- Focus on what's important
 - Define success
- Reason for solicitation
 - Dissatisfaction?
 - Cause(s)
 - Rotation Policy?
 - Why?

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Consequences of Poor Selection

- Disallowed audit costs
- Funding source sanctions
- Loss of agency time and resources
- Frustration (pain and suffering)

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Timing

- Allow sufficient time for:
 - Candidates to respond, including on site review of records;
 - Agency to evaluate.
- Consider effect on audit scope:
 - Observation of inventories
 - Retention and availability of records

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Role of the Audit Committee

- Responsible for selection and appointment, if auditors.
- Pre-approve non-audit services.
- Review and document material risks and communicate them to the auditor.
- Review related party and unusual transactions.
- Meet with auditor to review results.
- Evaluate the auditor.

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Key Elements of the Request for Proposals

- Agency background
- Scope of services
- Evaluation criteria

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RFP Instructions

- Response format
- Number and type of response
- Delivery instructions
 - Due date
 - Method

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Agency Information

- Legal name, address, and contact person
- Organizational structure
- Significant programs and funding sources
- Operating locations
- Accounting system, controls, and procedures
- Assistance to be provided by agency personnel
- Prior year audit report (Data Collection Form for last 2 years)

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Scope of Services

- Single audit (if applicable)
- Separate audits of benefit plans (if required)
- Preparation of IRS Form 990
- Preparation of Form 5500
- Other services

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Evaluation Criteria

- Qualifications
 - Firm
 - Audit team
- Specific experience in audits of CAPs
- Specific knowledge of significant programs operated by your agency
- Demonstration of understanding of the work to be performed

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Evaluation Criteria

- Reasonableness of:
 - Engagement timeline
 - Methodology
 - Assistance to be provided by agency personnel
- Credibility/reliability/service quality
 - Check references
- Fees/cost
 - Out-of-pocket costs
 - Ancillary services/technical consultation

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Weighting the Criterion

- Establish weighting in the planning phase
- Include the weighting in the RFP
- Technical criteria should be decisive
- Price should be a determinant only when technical rankings are close
 - However, establish weightings based on what is important to you.

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"It's a very sobering feeling to be up in space and realize that one's safety factor was determined by the lowest bidder on a government contract."

Alan Shepard – U. S. Astronaut

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Audit Firm Information

- Brief description of the firm, including size, structure, and office locations
- Information on staffing for office to be providing the service
- Identify partner(s) and staff to be involved
 - Provide biographical information for key individuals
 - Provide specific CAP experience
 - Depth of partners and staff in CAP practice

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Audit Firm Information

- Availability of other services
- Reference list of CAP clients
- Reference list of other relevant nonprofit clients
- Disclosure of any sanctions issued by any professional licensing body or government entity against individuals to be assigned

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Qualifications

- Firm
 - Membership in GAQC
 - Peer review results
 - Corroboration from clients
- Team
 - Education or licensure
 - Specific CAP audit engagements
 - Depth

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Evaluating the Technical Proposal

- Demonstration of a clear understanding of the CAP's needs
- Adherence to requested timelines
- Audit approach to:
 - Internal control
 - Compliance procedures
 - Significant risks of material misstatement
 - Concept of materiality

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Evaluating the Technical Proposal

- Timing and frequency of communications with governing board
- Use of the work of internal auditors
- Overall soundness of audit approach
- Realistic time estimates (audit hours)
- Multi-year considerations

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Required Communications

- Auditor's Responsibility Under Professional Standards
- Accounting Practices
 - Adoption of, or Change in, Accounting Policies
 - Significant or Unusual Transactions
 - Alternative Treatments Discussed with Management
- Management's Judgments and Accounting Estimates
- Financial Statement Disclosures
- Audit Adjustments

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Required Communications

- Uncorrected Misstatements
- Disagreements with Management
- Consultations with Other Accountants
- Significant Issues Discussed with Management
- Difficulties Encountered in Performing the Audit
- Certain Written Communications Between Management and Our Firm

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RECENT AUDIT DEVELOPMENTS

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Government Auditing Standards 2011 Revision

Major changes:

- Consolidate and reorganize the foundation and ethical principles for government audits and the standards for use and application of GAGAS (Chapters 1 and 2);
- Add a conceptual framework approach for independence (Chapter 3);

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Government Audit Standards Revision

- Promote harmonization of auditing standards (Chapter 4);
- Clearly distinguish the requirements related to each type of attestation work (Chapter 5);
- Update the performance auditing standards (Chapters 6 and 7)

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Threats to Independence

- Self-interest
- Self-review
- Bias
- Familiarity
- Undue influence
- Management participation
- Structural

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Financial Statement Preparation

An auditor's acceptance of responsibility for the preparation and fair presentation of financial statements that the auditor will subsequently audit would impair the auditor's independence. Auditors should determine that the audited entity management taking responsibility for the preparation and fair presentation of the financial statements possesses suitable skill, knowledge, and/or experience to evaluate the adequacy of any services in this area provided by the auditor.

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OMB A-133 Compliance Supplement

- 2011 Version Released in early June

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Questions?

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THANK YOU FOR YOUR PARTICIPATION TODAY. ANY QUESTIONS MAY BE FORWARDED TO:

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